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ABSTRACT

This study examined the rate of participation in, and default on loans from, the Federal Parent Loans for Undergraduate Students (PLUS) and the Federal Supplemental Loans for Students (SLS) programs. In particular the study sought to know the volume of loans made to students or parents of students attending proprietary (trade) schools and other postsecondary educational institutions, the extent of borrowing by parents of freshmen and by freshmen students as compared to such borrowing for students in their second or subsequent years of schooling, and the amount of defaulted loans. The study proceeded by soliciting loan volume data for fiscal years 1989 to 1991 from 11 of the largest guaranty agencies, which together accounted for 63 percent and 62 percent of the PLUS and SLS total loan volumes. Ten of the agencies also provided loan default data. The review found that $1.7 billion in PLUS loans and $3.7 billion in SLS loans were made during the period. In addition most of the PLUS loan volume went to parents of students attending nonproprietary schools and most of the PLUS volume increase was among non-freshmen at nonproprietary schools. New loan defaults increased during each of the 3 years and totaled almost $109 million for PLUS loans and $1.4 billion for SLS loans. Numerous tables and figures supplement the text. (JB)

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United States General Accounting Office

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Fact Sheet for Congressional Requesters

ED350956

September 1992

PARENT AND SUPPLEMENTAL STUDENT LOANS

Volume and Default Trends for Fiscal Years 1989 to 1991

HE 025 934

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United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-249978

September 22, 1992

The Honorable Edward M. Kennedy
Chairman, Committee on Labor
and Human Resources
United States Senate

The Honorable William D. Ford
Chairman, Subcommittee on
Postsecondary Education
Committee on Education and Labor
House of Representatives

This fact sheet responds to your request for information concerning the Federal Parent Loans for Undergraduate Students (PLUS) and the Federal Supplemental Loans for Students (SLS) programs.[1] Under the PLUS program, parents who have dependents that are students may borrow up to $4,000 per year, to a maximum of $20,000.[2] SLS loans are made to independent students (generally those responsible for their own financial support) and are subject to the same loan limits as PLUS loans. Eligible borrowers can obtain PLUS and SLS loans in addition to, or in lieu of, other available federal financial aid, such as Federal Stafford loans.

Specifically, we developed PLUS and SLS information for fiscal years 1989 to 1991 on the (1) volume of loans made to students attending and to parents of students attending proprietary (trade) schools and other postsecondary education institutions, (2) extent of borrowing by parents of freshmen or by freshmen students as compared to such borrowing for students in their second or subsequent years of schooling, and (3) amount of defaulted loans.

Background

PLUS and SLS loans are made by commercial lenders, such as banks or credit unions. The lenders are insured against defaults on these loans by guaranty agencies, who are in turn reinsured by the Department of Education.

Both PLUS and SLS loans carry the same variable interest rate based on 52-week Treasury bill rates, but the rates cannot exceed 12 percent. These

[1]PLUS and SLS loans are part of the Federal Family Education Loan Program, authorized by title IV of the Higher Education Act of 1965, as amended, which also includes Federal Stafford and Federal Consolidation loans.

[2]Subsequent to our review, the Higher Education Amendments of 1992 (P.L. 102-325) changed the borrowing limits and interest rates for the PLUS and SLS programs.

rates change each July. For example, the interest rate for the period July 1, 1991, through June 30, 1992, was 9.34 percent. Repayment of loans under both programs must generally begin within 60 days after loans are made. New PLUS and SLS loans made nationwide in fiscal year 1991 totalled $1.1 billion and $1.9 billion, respectively.

Scope and Methodology

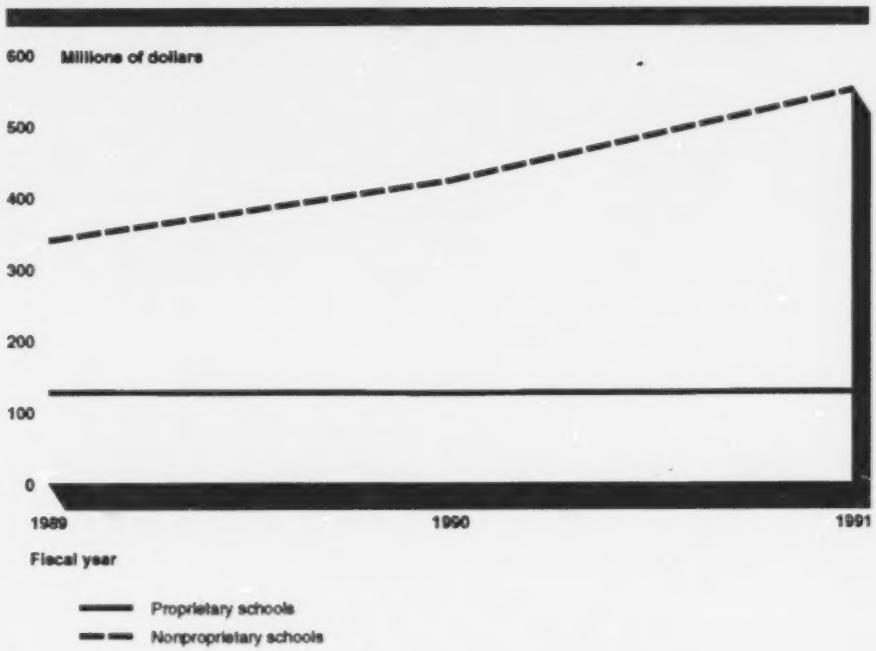
We attempted to obtain PLUS and SLS loan volume data for fiscal years 1989 to 1991 from 12 of the largest guaranty agencies. However, the New York guaranty agency was unable to provide the requested data within our time frames. The remaining 11 agencies guaranteed 63 percent and 62 percent of the PLUS and SLS total loan volumes, respectively, during the 3-year period. In addition, the Virginia guaranty agency was unable to provide the requested default data. As a result, we received and analyzed loan volume data from 11 agencies and loan default data from 10 agencies. (A list of the agencies is contained in app. I.) We did not verify the accuracy of the data submitted by the guaranty agencies.

Our review was conducted between October 1991 and May 1992 in accordance with generally accepted government auditing standards.

Loan Volumes

The 11 guaranty agencies guaranteed nearly $1.7 billion in PLUS loans and $3.7 billion in SLS loans that were made during fiscal years 1989 to 1991. As shown in figure 1, most of the PLUS loan volume went to parents of students attending nonproprietary schools—increasing from $339 million in 1989 to $550 million in 1991.

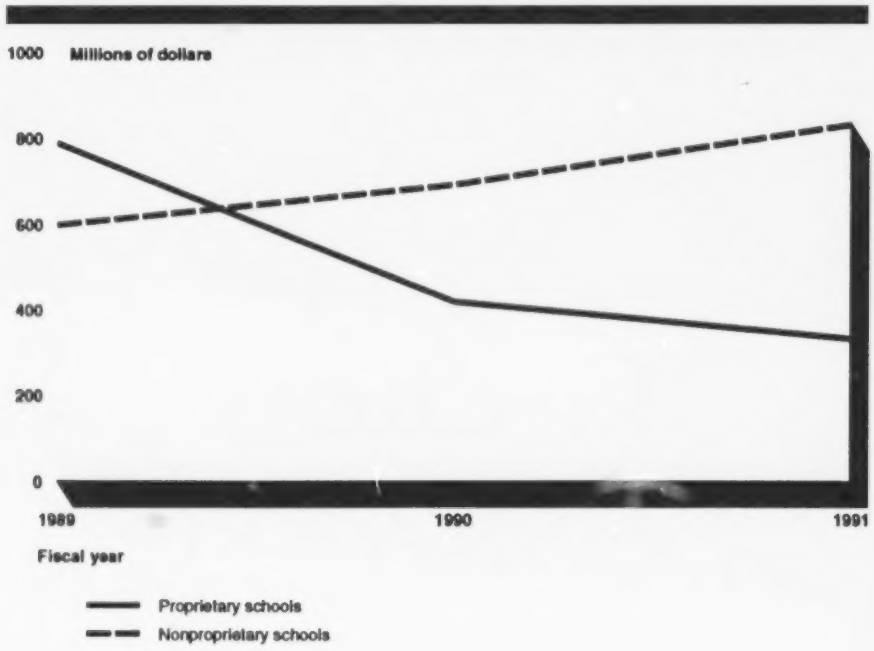
Figure 1: Most PLUS Loan Volume Went to Parents of Nonproprietary School Students (Fiscal Years 1989-91)



Most of the PLUS volume increase—about $140 million—was among nonfreshmen at nonproprietary schools. PLUS loan volume at proprietary schools, on the other hand, remained relatively constant at about $126 million and most of these loans were made to parents of freshmen students; that is, students attending their first year of school. (Tables II.1 and II. 2 contain further details on PLUS loan volume activity.)

SLS loan volume for proprietary and nonproprietary schools decreased from $1.4 billion in 1989 to $1.1 billion in 1990, and then increased by $50 million in 1991. However, contrasting loan volume trends developed between the two kinds of schools. Figure 2 shows that in 1989 a higher volume of loans was made to students at proprietary schools than at nonproprietary schools—$787 million and $597 million, respectively. By the end of fiscal year 1991, the reverse was true. SLS loans to students at proprietary schools decreased to $330 million, while SLS loans to students at nonproprietary schools increased to $830 million.

Figure 2: SLS Loan Volume Increased at Nonproprietary Schools and Decreased at Proprietary Schools
(Fiscal Years 1989-91)

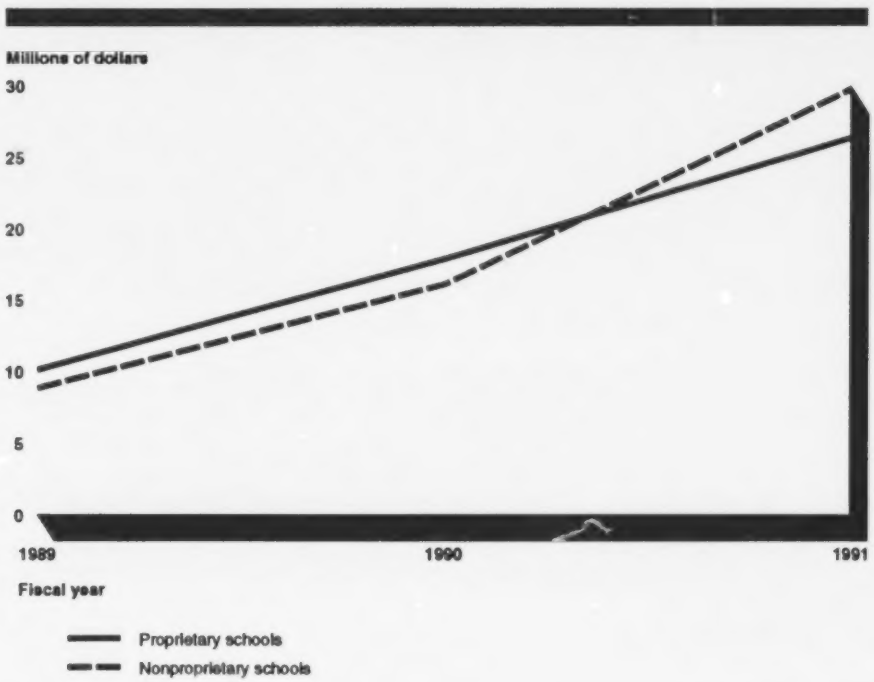


SLS loan volume for freshmen students at proprietary schools declined from $718 million to $265 million. In comparison, volume to nonfreshmen students at nonproprietary schools increased from $486 million to $713 million. (Tables II.3 and II.4 contain further details on SLS loan volume activity.)

Loan Defaults

New defaults, which increased each year during fiscal years 1989-1991, totalled almost $109 million for PLUS loans and $1.4 billion for SLS loans that were guaranteed by the 10 guaranty agencies. As shown in figure 3, PLUS loan default volume increased at both proprietary and nonproprietary schools during this 3-year period—from $10 million to $26 million and from $9 million to $30 million, respectively.

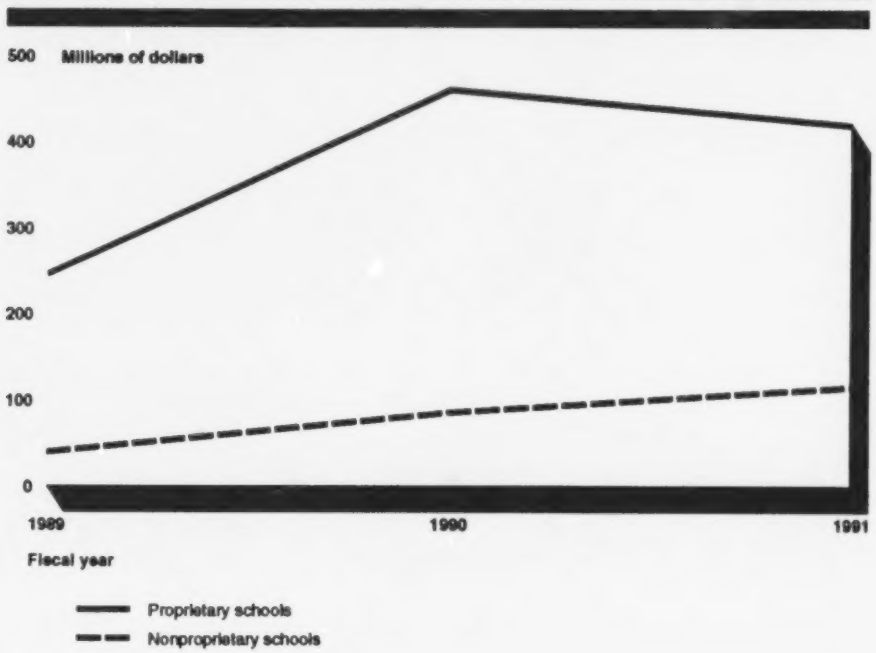
Figure 3: PLUS Loan Defaults Increased at Both Proprietary and Nonproprietary Schools (Fiscal Years 1989-91)



PLUS loan default volume increased the greatest among parents of nonfreshmen students at nonproprietary schools. Defaults on loans made to these borrowers increased from $4.1 million in 1989 to $14.7 million in 1991, an increase of 262 percent. (Tables II.5 and II. 6 contain further details on PLUS loan default activity.)

SLS loan default volume also increased at both proprietary and nonproprietary schools during fiscal years 1989 to 1991, although SLS loan defaults had declined in 1991. Figure 4 shows that defaults at proprietary schools went from $245 million in 1989 to $460 million in 1990, and then decreased to $419 million in 1991. SLS defaults at nonproprietary schools increased from $39 million in 1989 to $115 million in 1991.

Figure 4: SLS Loan Defaults Increased at Both Proprietary and Nonproprietary Schools (Fiscal Years 1989-91)



Proprietary school borrowers accounted for $1.1 billion (about 83 percent) of $1.4 billion in total SLS loan default volume over the 3-year period. Freshmen borrowers at these schools were responsible for $1 billion of these defaults. (Tables II.7 and II.8 contain further details on SLS loan default activity.)

We did not obtain written comments on this fact sheet from the Department of Education or other interested parties. We did, however, discuss its contents with Department program officials, who agreed with its contents.

We are sending copies of this fact sheet to other congressional committees, the Department of Education, and other interested parties. Should you wish to discuss its contents, please call me at (202) 512-7014. Other major contributors to this fact sheet are listed in appendix III. In addition, other selected GAO products concerning student loans and defaults are listed opposite the inside back cover.

Linda G. Morra
Director, Education and
Employment Issues

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Abbreviations

GAO	General Accounting Office
PLUS	Parent Loans for Undergraduate Students
SLS	Supplemental Loans for Students

Guaranty Agencies Providing Loan Volume and Default Data

Agencies Providing Data

California Student Aid Commission

Colorado Student Loan Program

Great Lakes Higher Education Corporation

Higher Education Assistance Foundation

Massachusetts Higher Education Assistance Corporation

Nebraska Student Loan Program, Inc.

Ohio Student Loan Commission

Pennsylvania Higher Education Assistance Agency

Texas Guaranteed Student Loan Corporation

United Student Aid Funds, Inc.

Virginia State Education Assistance Authority[1]

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[1]Provided only loan volume data.

Loan Volume and Default Data

PLUS Loan Volume Activity (Fiscal Years 1989-91)

Table II.1: Proprietary School PLUS Loan Volume, by Kind of Student

Dollars in thousands

	Kind of student		
Fiscal year	**Freshmen**	**Nonfreshmen**	**Totals**
1989	$105,473	$20,935	**$126,408**
1990	101,752	23,381	**125,133**
1991	98,650	28,027	**126,677**
Total	$305,875	$72,343	**$378,218**
Change in dollars (1989-91)	–$6,823	$7,092	**$269**
Change in percent (1989-91)	–6.5%	33.9%	**0.2%**

Table II.2: Nonproprietary School PLUS Loan Volume, by Kind of Student

Dollars in thousands

	Kind of student		
Fiscal year	**Freshmen**	**Nonfreshmen**	**Totals**
1989	$156,367	$182,583	**$338,950**
1990	183,533	238,619	**422,152**
1991	227,069	322,971	**550,040**
Total	$566,969	$744,173	**$1,311,142**
Change in dollars (1989-91)	$70,702	$140,388	**$211,090**
Change in percent (1989-91)	45.2%	76.9%	**62.3%**

SLS Loan Volume Activity (Fiscal Years 1989-91)

Table II.3: Proprietary School SLS Loan Volume, by Kind of Student

Dollars in thousands

	Kind of student		
Fiscal year	**Freshmen**	**Nonfreshmen**	**Totals**
1989	$718,253	$68,693	**$786,946**
1990	361,763	56,366	**418,129**
1991	265,909	64,492	**330,401**
Total	$1,345,925	$189,551	**$1,535,476**
Change in dollars (1989-91)	–$452,344	–$4,201	**–$456,545**
Change in percent (1989-91)	–63.0%	–6.1%	**–58.0%**

Table II.4: Nonproprietary School SLS Loan Volume, by Kind of Student

Dollars in thousands

	Kind of student		
Fiscal year	**Freshmen**	**Nonfreshmen**	**Totals**
1989	$111,000	$486,234	**$597,234**
1990	100,990	589,946	**690,936**
1991	117,036	712,862	**829,898**
Total	$329,026	$1,789,042	**$2,118,068**
Change in dollars (1989-91)	$6,036	$226,628	**$232,664**
Change in percent (1989-91)	5.4%	46.6%	**39.0%**

PLUS Loan Default Activity (Fiscal Years 1989-91)

Table II.5: Proprietary School PLUS Loan Defaults, by Kind of Student

Dollars in thousands

	Kind of student		
Fiscal year	**Freshmen**	**Nonfreshmen**	**Totals**
1989	$8,975	$1,123	**$10,098**
1990	15,996	1,864	**17,860**
1991	23,179	3,171	**26,350**
Total	$48,150	$6,158	**$54,308**
Change in dollars (1989-91)	$14,204	2,048	**$16,252**
Change in percent (1989-91)	158.3%	182.4%	**160.9%**

Table II.6: Nonproprietary School PLUS Loan Defaults, by Kind of Student

Dollars in thousands

	Kind of student		
Fiscal year	**Freshmen**	**Nonfreshmen**	**Totals**
1989	$4,771	$4,052	**$8,823**
1990	8,795	7,266	**16,061**
1991	15,082	14,682	**29,764**
Total	$28,648	$26,000	**$54,648**
Change in dollars (1989-91)	$10,311	$10,630	**$20,941**
Change in percent (1989-91)	216.1%	262.3%	**237.3%**

SLS Loan Default Activity (Fiscal Years 1989-91)

Table II.7: Proprietary School SLS Loan Defaults, by Kind of Student

Dollars in thousands

	Kind of student		
Fiscal year	**Freshmen**	**Nonfreshmen**	**Totals**
1989	$227,676	$17,428	**$245,104**
1990	431,121	28,692	**459,813**
1991	384,387	34,162	**418,549**
Total	$1,043,184	$80,282	**$1,123,466**
Change in dollars (1989-91)	$156,711	$16,734	**$173,445**
Change in percent (1989-91)	68.8%	96.0%	**70.8%**

Table II.8: Nonproprietary School SLS Loan Defaults, by Kind of Student

Dollars in thousands

	Kind of student		
Fiscal year	**Freshmen**	**Nonfreshmen**	**Totals**
1989	$15,236	$23,714	**$38,950**
1990	34,955	49,761	**84,716**
1991	45,886	68,826	**114,712**
Total	$96,077	142,301	**$238,378**
Change in dollars (1989-91)	$30,650	45,112	**$75,762**
Change in percent (1989-91)	201.2%	190.2%	**194.5%**

Major Contributors to This Fact Sheet

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Related GAO Products

Student Loans: Characteristics of Defaulted Borrowers in the Stafford Student Loan Program (GAO/HRD-91-82BR, Apr. 26, 1991).

Student Loan Lenders: Information on the Activities of the First Independent Trust Company (GAO/HRD-90-183FS, Sept. 25, 1990).

Defaulted Student Loans: Analysis of Defaulted Borrowers at Schools Accredited by Seven Agencies (GAO/HRD-90-178FS, Sept. 12, 1990).

Supplemental Student Loans: Legislative Changes Have Sharply Reduced Loan Volume (GAO/HRD-90-149FS, Aug. 3, 1990).

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Supplemental Student Loans: Who Are the Largest Lenders? (GAO/HRD-90-72FS, Feb. 21, 1990).

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Supplemental Student Loans: Who Borrows and Who Defaults (GAO/HRD-90-33FS, Oct. 17, 1989).

Guaranteed Student Loans: Comparisons of Single State and Multistate Guaranty Agencies (GAO/HRD-89-92, July 11, 1989).

Guaranteed Student Loans: Analysis of Student Default Rates at 7,800 Postsecondary Schools (GAO/HRD-89-63BR, July 5, 1989).

Defaulted Student Loans: Preliminary Analysis of Student Loan Borrowers and Defaulters (GAO/HRD-88-112BR, June 14, 1988).

GAO's Views on the Default Task Force's Recommendations for Reducing Default Costs in the Guaranteed Student Loan Program (GAO/T-HRD-88-7, Feb. 2, 1988).

Guaranteed Student Loans: Legislative and Regulatory Changes Needed to Reduce Default Costs (GAO/HRD-87-76, Sept. 30, 1987).

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